



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 9/1/2005

**GAIN Report Number:** CI5016

## Chile

## Livestock and Products

## Pork Annual

## 2005

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**Report Highlights:**

As a result of a strong export demand the largest Chilean pork producers are expanding production by increasing the number of sows. Production then is expected to expand an estimated 10 percent in 2005 and another 14 percent in 2006. Imports also are expected to grow, as exports of pork are likely to outgrow production expansions.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Santiago [CI1]  
[CI]

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## Executive Summary

Chile's pork industry has based its development on the geographic isolation that has been fundamental to keep an animal disease free environment. Economic stability, along with an open market strategy, have encouraged investments that have had a positive effect on the quantity and quality of production. There is a strong focus on controlling the production process to meet buyer specifications. Pork production has grown extraordinarily during the last decade, at a rate of slightly less than 9 percent yearly. This production expansion is mainly due to increases in efficiency and the transfer of the low grain prices (the main input in swine production) to the consumer, stimulating pork meat consumption.

## Production General

Chile's economic stability and expansion has spurred a continuous increase in meat consumption over the last decade. An average annual GDP growth rate of over 6 percent during the last 18 years and per capita income that has increased three times has positioned Chile as one of the fastest growing economies in the western hemisphere.

As a result meat consumption and production has expanded significantly. The most impressive growth has occurred in poultry. Chile's poultry industry has been aided by strong consumption and on meeting salmonella certification requirements that have kept imports out. Poultry exports also have grown significantly in the last 10 years. Per capita consumption has grown from 22 Kg in 1995 to 32 Kg in 2004. In the early 1990's, the production that could not be sold in the export market was sold at very competitive prices on the domestic market, thus cutting into the beef and pork sales.

Beef consumption also has increased but production has not kept pace with rising utilization. Consequently, Chile has become a significant beef importer. The MERCOSUR member countries currently are the main suppliers of beef in Chile.

Pork production and consumption also has been increasing steadily for the last decade. Per capita consumption has increased from 12 Kg in 1995 to 18.5 Kg in 2004. Exports also have grown since 1995. The latest statistics show that Chile possesses a total population of 2.3 million pigs up from 1.5 million in 1995.

## PORK

### Production

Chile's pork production has expanded tremendously during the last two decades, from 66 thousand metric tons in 1985 to 372 thousand metric tons in 2004, an average yearly expansion of over 20%. Its production expansion and efficiency is a result of a privileged sanitary environment with favorable climatic conditions.

| <b>TABLE - Pork Meat Production and Trade (Metric Tons)</b> |                     |                  |                  |   |
|---|---------------------|------------------|------------------|---|
|   | Production<br>(CWE) | Exports<br>(PWE) | Imports<br>(PWE) | Per Capita<br>Consumption<br>(Kg/ person) |
| 1990  | 123,170             | 1,646            | 0                |   |
| 1995  | 172,410             | 2,755            | 979              | 12.1                                      |
| 2000  | 261,477             | 12,994           | 1,854            | 16.5                                      |
| 2001  | 303,006             | 24,391           | 296              | 18.1                                      |
| 2002  | 350,721             | 45,291           | 584              | 19.6                                      |
| 2003  | 365,343             | 61,473           | 187              | 19.3                                      |
| 2004  | 372,845             | 78,794           | 751              | 19.0                                      |
| Source: Central Bank, Ministry of Agriculture (ODEPA)       |                     |                  |                  |   |

In Chile, the pork industry is highly concentrated and vertically integrated. The Pork Producers Association only has 40 members out of 140 producers, but these members produce 92% of the total domestic production. Almost 75 percent of Chile's pork production is concentrated among 5 large pork packers, of which Agrosuper accounts for 65 percent of total production, followed by Friosa at 15 percent and Valledor accounting for 8 percent. The largest five producers, members of the Association, are vertically integrated. Vertical integration has enabled producers to maintain a strict level of product traceability throughout the process and ensuring product safety, quality and reliability from the production site to the final consumer. Large investments to incorporate state-of-the-art technology that strengthen sanitary and production efficiency levels, as well as an aggressive campaign to expand export markets through the implementation of free trade agreements, are the main factors that explain the Chilean pork industry's success. Only an estimated 3 percent of total pork production comes from the so-called non-industrial operations.

Close to 97 percent of the pork producers are located in two Regions, Region VI (Rancagua) with almost 68 percent of total production and the Metropolitan Region (Santiago) where 29 percent is produced. Agrosuper's main operation is concentrated in Region VI with 75% of the total number of pigs.

Industry expects pork production to increase by 10 percent in 2005, because domestic and export demand are still expanding. Another 14 percent expansion is projected for 2006. Industry sources believe increased feed costs (higher prices for corn and soybeans) have affected production in Europe and Brazil. However, demand for pork and pork products in Asia have been growing as a result of avian influenza. Increases in production in Chile will be due to an increase in the number of sows maintained by the largest operations. As a result of increased economies of scale, production costs are expected to fall, which will allow these producers to export part of this production expansion. Additionally, since they are integrated vertically, these companies can transfer their cost efficiencies into the price of the final product, thus stimulating consumption of certain cuts by offering especially competitive prices.

### **Consumption**

Domestic pork consumption has expanded over 220 percent from 1986 to 2004. Per capita consumption grew from 6.1 Kg in 1986 to 19 Kg in 2004. Additionally its share of total meat consumption in Chile grew from 21 percent in 1986 to 26 percent in 2004. Leaner pork meat, an extensive and aggressive generic marketing campaign, lower prices and increased disposable income are many of the reasons for the significant increase in domestic

consumption during the last 20 years. The industry expects domestic pork consumption to reach 22 kilos per capita in year 2010.

## Trade

### Exports

Chilean pork exports have grown significantly during the last decade, from 2,755 MT in 1995 to over 102,000 MT in 2004, an average annual increase of over 40 percent. The main destinations for Chilean pork are Japan, South Korea, Mexico and EU member countries.

Industry officials indicate special trade agreements and the higher sanitary conditions for the pork production are Chile's main comparative advantage in gaining market access. Chile is free of the main diseases that affect pig production and the strict regulatory controls and sanitary restrictions carried out by the Agricultural and Livestock Service (SAG) throughout the production chain, provide a national sanitary framework that prevents the introduction of diseases, which has allowed Chile to access many different markets.

Until recently the Pork Industry's main objective was to satisfy domestic demand. Realizing the good quality of their product and supported by Chile's open market and export promotion policies, the industry has turned its attention to the export markets. Exports are forecast to reach 500 million dollars by 2010 from a base of \$322 mil in 2005.

| <b>TABLE – Export Projection, volume and value</b> |               |                     |
|--|---------------|---------------------|
|  | Pork Meat     |                     |
| Year   | Volume (M.T.) | Value (Thous. US\$) |
| 2005   | 128,800       | 322,000             |
| 2006   | 173,880       | 434,700             |
| 2007   | 191,268       | 447,741             |
| 2008   | 208,482       | 465,651             |
| 2009   | 229,330       | 484,277             |
| 2010   | 250,000       | 505,000             |
| Source: Pork Producers Association                 |               |                     |

### Imports

Industry sources have report that pork imports currently are insignificant, but will most probably grow in the coming years, as domestic and export demand outstrips production. The opening of the US market for Chilean pork is expected to contribute to increase Chilean exports. This will most probably create a larger deficit for the Chilean sausage industry, which is not vertically integrated, i.e. they do not produce swine and/or own a slaughterhouse. The sausage industry needs a constant supply of pork imports. As a result of increased c prices during the last 4 years for domestic input, the processing industry is increasingly turning towards imports to assure a constant supply. Currently, only certain cuts are imported (boneless and bellies), as these products are destined for the processing industry (sausage). Canada has been the main supplier of pork for the sausage industry.

But new market access for US pork products is expected to replace some Canadian imports. Like Canadian product, US product can now enter duty free.

**TABLE – Domestic Pork and Product Prices**

|      | Producer for live<br>Animals<br>(US\$/ Kg) | Pork meat in<br>carcasses<br>(US\$/Kg) | Pork Chop at<br>consumer level<br>(US\$/Kg) |
|------|--|--|---|
| 1999 | 0.80                                       | 1.42                                   | 2.91  |
| 2000 | 0.76                                       | 1.35                                   | 3.01  |
| 2001 | 0.68                                       | 1.29                                   | 2.65  |
| 2002 | 0.68                                       | 1.34                                   | 2.49  |
| 2003 | 0.77                                       | 1.52                                   | 2.54  |
| 2004 | 0.92                                       | 1.69                                   | 3.18  |

Source: National Institute of Statistics, ODEPA

An industry source indicated that imports would be much larger if price were the only factor to consider in an import transaction. However since the export market is so important, imported ingredients must comply with highest sanitary conditions. Pork product imports can only come from countries that have similar or better sanitary conditions than Chile.

**TABLE – Tariff Rate**

| Tariff Number        | Product Description                           | Rate<br>(%) | Other Info                          |
|----------------------|---|-------------|-------------------------------------|
| 02031200<br>02031900 | Fresh bone-in Pork<br>Other Fresh Pork Meat   | 6           | Duty free from EU,<br>Canada and US |
| 02032200<br>02032900 | Frozen bone-in Pork<br>Other Frozen Pork Meat | 6           | Duty free from EU,<br>Canada and US |
| 02063000             | Pork: Variety meat                            | 6           | Duty free from EU,<br>Canada and US |
| 02101000             | Pork Meat                                     | 6           | Duty free from EU,<br>Canada and US |
| 16024000             | Processed Pork Meat                           | 6           | Duty free from EU,<br>Canada and US |

Imports from MERCOSUR (Brazil and others) have an 80 percent preference during CY2005, i.e. an importer would pay a 1.2 percent duty. However, by January 1, 2006, these products will enter duty free.

| PSD Table                   |                     |                     |                     |                     |                          |                     |               |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|--------------------------|---------------------|---------------|
| Country                     | Chile               |                     |                     |                     |                          |                     |               |
| Commodity                   | Meat, Swine         |                     |                     |                     | (1000 MT CWE)(1000 HEAD) |                     |               |
|                             | 2004                | Revised             | 2005                | Estimate            | 2006                     | Forecast            | UOM           |
|                             | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old]      | Post Estimate [New] |               |
| Market Year Begin           |                     | 01/2004             |                     | 01/2005             |                          | 01/2006             | MM/YYYY       |
| Slaughter (Reference)       | 0                   | 3975                | 0                   | 4380                | 0                        | 4995                | (1000 HEAD)   |
| Beginning Stocks            | 0                   | 0                   | 0                   | 0                   | 0                        | 0                   | (1000 MT CWE) |
| Production                  | 0                   | 373                 | 0                   | 411                 | 0                        | 469                 | (1000 MT CWE) |
| Intra EC Imports            | 0                   | 0                   | 0                   | 0                   | 0                        | 0                   | (1000 MT CWE) |
| Total Imports               | 0                   | 1                   | 0                   | 1                   | 0                        | 2                   | (1000 MT CWE) |
| TOTAL Imports               | 0                   | 1                   | 0                   | 1                   | 0                        | 2                   | (1000 MT CWE) |
| TOTAL SUPPLY                | 0                   | 374                 | 0                   | 412                 | 0                        | 471                 | (1000 MT CWE) |
| Intra EC Exports            | 0                   | 0                   | 0                   | 0                   | 0                        | 0                   | (1000 MT CWE) |
| Total Exports               | 0                   | 102                 | 0                   | 129                 | 0                        | 174                 | (1000 MT CWE) |
| TOTAL Exports               | 0                   | 102                 | 0                   | 129                 | 0                        | 174                 | (1000 MT CWE) |
| Human Dom. Consumption      | 0                   | 272                 | 0                   | 283                 | 0                        | 297                 | (1000 MT CWE) |
| Other Use, Losses           | 0                   | 0                   | 0                   | 0                   | 0                        | 0                   | (1000 MT CWE) |
| TOTAL Dom. Consumption      | 0                   | 272                 | 0                   | 283                 | 0                        | 297                 | (1000 MT CWE) |
| Ending Stocks               | 0                   | 0                   | 0                   | 0                   | 0                        | 0                   | (1000 MT CWE) |
| TOTAL DISTRIBUTION          | 0                   | 374                 | 0                   | 412                 | 0                        | 471                 | (1000 MT CWE) |
| Calendar Yr. Imp. from U.S. | 0                   | 0                   | 0                   | 0                   | 0                        | 0                   | (1000 MT CWE) |
| Calendar Yr. Exp. to U.S.   | 0                   | 0                   | 0                   | 0                   | 0                        | 0                   | (1000 MT CWE) |

| Export Trade Matrix |             |             |       |
|---------------------|-------------|-------------|-------|
| Country             | Chile       |             |       |
| Commodity           | Meat, Swine |             |       |
| Time Period         | Jan-Dec     | Units:      | M.T.  |
| Exports for:        | 2004        |             | 2005  |
| U.S.                | 0           | U.S.        | 0     |
| Others              |             | Others      |       |
| Japan               | 56074       | Japan       | 33657 |
| South Korea         | 24596       | South Korea | 17100 |
| Mexico              | 9745        | Mexico      | 4005  |
| Argentina           | 2023        | Argentina   | 1888  |
| Italy               | 1776        | Cuba        | 1143  |
| Germany             | 1616        | U.K.        | 950   |
| Cuba                | 1342        | Italy       | 687   |
| U.K.                | 1122        | Germany     | 625   |
| Netherlands         | 1050        | Ecuador     | 468   |
| Colombia            | 1041        | Colombia    | 359   |
| Total for Others    | 100385      |             | 60882 |
| Others not Listed   | 2047        |             | 715   |
| Grand Total         | 102432      |             | 61597 |